Ziplines

A letter from the NWA MEC Chairman to the pilots of ALPA Councils 1, 20, 54, 55 & 74

TO: **All Northwest Pilots**
FROM: **Dave Stevens**
DATE: **April 14, 2008**

In the wake of the Delta-Northwest merger announcement today, I am writing to update the Northwest pilots. I will start by giving you the conclusion. Since January 2008, we have been working hard to put together a cooperative merger between the Northwest pilots, Delta management and the Delta pilot leadership. Agreement on the terms for a cooperative merger was in all stakeholders' best interest in better times, with oil below $90 per barrel. With oil over $110 and an economy facing recession, and given the recent activities of the two managements and the Delta MEC, a merger with Delta may no longer be in the best interests of all Northwest stakeholders, including the Northwest pilot group. Northwest Airlines has strong standalone prospects given its cash position (best of the legacy carriers) and the flexibility of the NWA fleet, among other things. We are in a good position to weather the potential economic storm.

As a quick review, we started exploration of a cooperative merger with four key requirements from NWA MEC Resolution 08-01:

1. Creation of a profitable merged company with sufficient market presence and network scope to provide a stable platform for growth and sustainable profits;

2. Fair and equitable seniority list integration;

3. Collective bargaining agreement for the merged company with substantial improvements; and

4. Share in the equity of the merged company.

A cooperative merger provides a win-win formula for labor and management. By achieving a joint contract and seniority list prior to the effective date of the merger, revenue synergies and cost efficiencies are generated immediately (worth many hundreds of millions of dollars per year), and a portion of this economic upside could go to the pilot groups in the form of contract improvements and equity.

Since January, we have met with the Delta pilot leadership and Delta management in three extended efforts to accomplish the above requirements. By the end of the second session, we had accomplished requirements #3 and #4. However, we were unable to reach agreement on #2, an equitable seniority list, which is essential to accomplish #1. There was a great deal of collaborative effort expended by the Delta pilot leadership and Delta management to convince us to accept inequities in a seniority list in return for improved economics in a joint contract. As you know all too well, seniority is forever while economic provisions can be short lived.

The first two negotiations took place in New York City with oil below $90 per barrel. While we achieved agreement on a joint contract and equity and made progress on a seniority list, we did not achieve an equitable seniority list. The third negotiation took place in Washington, D.C., and while more progress was made on seniority, a seniority list agreement was not reached.

The seniority negotiations broke down over the Delta pilot leadership's desire to include aircraft options, not just orders, in the seniority integration ratio. We were not willing to adjust the seniority integration ratio in favor of Delta pilots based on options, particularly when such options were unlikely to be exercised, other than as replacement aircraft, in the worsening economic environment. There were additional problems concerning calculation of the number of active pilots at each carrier and staffing assumptions for the future. The resulting difference in our respective positions on a ratio was substantial. The actual breakdown occurred when, in response to my suggestion that we both compromise and bring that to our respective MECs for their consideration, we were advised that the Delta pilot group could not move off their last ratio proposal.

As we had several times before, we then suggested to the Delta pilot leadership that we agree on expedited arbitration of the outstanding issues by a date certain. The result of an expedited arbitration would have been functionally the same as an immediate negotiated agreement since there would have been one seniority list and a joint contract in place on the transaction effective date.

By use of this process, much of the transaction risk would have been taken out of the merger and additional funds would have been generated to pay for one-time transition costs. In the uncertain world of airline economics, this was a key consideration. When two airlines merge, they attempt to realize the benefits of the created synergies before they run out of cash on hand to pay for the transition costs. In our current environment, there is no more money to borrow and airlines have few assets left to encumber.

Unfortunately, the Delta pilot leadership rejected arbitration, whether expedited or not, as a means to resolve the seniority list dispute. From that point, Delta management, the Delta pilot leadership and Northwest management chose a different path. NWA management proposed a traditional merger to Delta management. Then Delta management entered into bilateral negotiations with the representatives of the Delta MEC. The representatives of the Northwest pilots were excluded from the negotiations. Inexplicably, the Delta pilot leadership reversed its position. They are now willing to arbitrate the seniority list issues under ALPA merger policy. At the same time, they abandoned the joint pilot contract approach and have, instead, agreed to a Delta pilot contract amendment which will increase the pay and benefits for only Delta pilots. The Northwest pilots are excluded from the economic benefits. Both managements have cooperated in this change in course.

Yesterday we met with Delta CEO Anderson, President Bastian and EVP Campbell. At that meeting, we suggested that they delay the merger announcement and spend a short period negotiating a joint contract with a focus on their harmonization issues. This suggestion was rejected in favor of the plan they are currently pursuing. In explanation, they said we were out of time to negotiate prior to a merger announcement date (despite the fact they found two weeks to negotiate a deal with the Delta pilot leadership).

As a result, there will be seniority arbitration in a traditional merger process and it may take a long time. The Delta pilot leadership may choose not to cooperate on a joint contract for the benefit of the Northwest pilots while they seek an agreement on seniority that favors the Delta pilots.

Now we reach the question your MEC considered at its meeting yesterday – Should the pilots, employees and customers of Northwest support this merger as it is currently contemplated? The managements are betting on the merger models of old: Pay the employees of one group less and focus on lowering costs (instead of many of the revenue synergies that are far more likely to improve the bottom line); hope for cost savings going forward from employee division with no concern for the dis-synergies caused by labor dissatisfaction. The point has already been made to us by Delta management that they already have a "B scale" at Northwest, and that they will need to maintain it by phasing in harmonized wages. Mergers based on this model have never worked well, but trying to make this work at $110/bbl fuel, with a looming recession and no access to credit markets, is putting everything at risk.

One can only conclude that the Delta pilot leadership and Delta management have made an arrangement to try to disadvantage the Northwest pilots economically and with respect to our seniority. No pilot group is going to put up with this. No amount of money can sustain a carrier which creates this level of discord. This is a recipe for failure. Under these conditions, Northwest Airlines and all the stakeholders, including the pilots, other employees and customers, are better served by a standalone airline. Under these circumstances, it is Northwest's best option, with its strong international and domestic route structure, a flexible fleet, an order book with fuel-efficient aircraft and the best cash position of any legacy carrier, to remain an independent carrier.

Your MEC reached this conclusion with reluctance. We were very close to concluding a truly cooperative merger which would have served the interests of everyone. We regret that an agreement was not obtained. However, the past is past. The Northwest pilot group now has to face a difficult future. As hard as a standalone course may be in these economic times, it is our judgment that it carries less risk than the merger path which now lies before us. For that reason, we will be turning our efforts to stopping this merger. Over the course of the next few weeks, we will be sending you more information on the MEC's plans. Look for a road show schedule to be posted soon.

Fraternally and in Unity,

Dave Stevens

Dave Stevens
MEC Chairman